

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 7241

BILL NUMBER: HB 1315

DATE PREPARED: Jan 15, 2002

BILL AMENDED:

SUBJECT: Universal Telecommunications Service.

FISCAL ANALYST: John Parkey

PHONE NUMBER: 232-9854

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill requires the Indiana Utility Regulatory Commission (IURC) to adopt rules to preserve and expand universal telecommunications service throughout Indiana. The bill provides that the rules adopted must:

- (1) designate certain telecommunications services as universal services that should be available in all regions of Indiana at just, reasonable, and comparable rates;
- (2) identify certain geographic areas in Indiana as underserved areas;
- (3) impose a customer surcharge on local exchange access service;
- (4) be consistent with federal universal service regulations; and
- (5) provide a funding mechanism to operate in coordination with federal universal service support mechanisms.

The bill establishes a telecommunications Universal Service Fund to:

- (1) receive the proceeds of the statewide customer surcharge on local exchange service; and
- (2) provide financial assistance to telecommunications providers providing universal service to underserved areas.

Effective Date: July 1, 2002.

Explanation of State Expenditures: *IURC:* This bill expands the duties of the IURC. It requires the Commission to impose a statewide surcharge on telephone lines and develop a means of distributing the revenue generated so as to expand and promote telecommunication services in underserved areas.

The bill will increase the administrative and staffing costs of the IURC. While the specific impact on the Commission is unknown, a portion of IURC's administrative costs may be partially offset with revenue

collected from the surcharge imposed in the bill. *This note will updated as more information becomes available from the IURC.*

An additional surcharge on telephone lines would increase state agencies' telephone costs.

Background on the Universal Service Fund: The bill establishes the Universal Service Fund to preserve and expand universal telecommunications service throughout Indiana. Revenue for the surcharge imposed and administered by the IURC would be deposited into the Fund and used to provide financial assistance for firms that provide telecommunications services to underserved areas at prices comparable to those of other areas of the state. The bill allows the cost of administering the Universal Service Fund to be paid from the Fund's resources.

Background on IURC and OUCC Funding: The operating budgets of the IURC and Office of the Utility Consumer Counselor (OUCC) are funded by regulated utilities operating in Indiana. The IURC determines the rate at which to bill the utilities based on the two agencies' budgets, less reversions, divided by the total amount of gross intra-state operating revenue received by the regulated utilities for the previous fiscal year. Based on this formula, utilities are currently billed approximately 0.10% of their gross intra-state operating revenues to fund the IURC and OUCC. In FY 2001, fees from the utilities and fines generated approximately \$8.6 M.

Background on the Federal Universal Service Fee (USF): Currently, a federal Universal Service Fee charge is assessed by the Federal Communications Commission (FCC) in order to: 1) promote telecommunication services to low-income consumers; 2) provide telephone service in high cost areas; 3) increase services in schools and libraries; and 4) help link health care providers in rural and urban areas. All telecommunications companies that provide service between states, including long distance companies, local phone companies, wireless companies, paging companies, and payphone providers are required to contribute to the fund based on a percentage of their interstate and international revenues. The current rate of contribution is approximately 7% of these revenues. The rate varies depending upon the projected needs of the fund. While companies can pass the cost of the contribution directly onto consumers, they are not mandated to do so.

Explanation of State Revenues:

Explanation of Local Expenditures: Local entities would be subject to any surcharge placed on phone service as a result of this provision.

Explanation of Local Revenues:

State Agencies Affected: Indiana Utility Regulatory Commission; Office of the Utility Consumer Counselor.

Local Agencies Affected: Local units of government; School corporations.

Information Sources: